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SUBJECT: BRAZIL - DEPUTY NATL SECURITY ADVISOR FROMAN DISCUSSES CEO
FORUM, DOHA, CLIMATE CHANGE, G8, G20, WITH GOB, JUNE 18-19

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(U) This message is sensitive but unclassified, please treat accordingly.

1. (SBU) SUMMARY: Government of Brazil (GOB) meetings with Deputy National Security Advisor for International Economic Affairs Michael Froman in Brasilia June 18-19 focused on CEO Forum, G8 and G20 preparations, Major Economies Forum (MEF) and Doha. Casa Civil head Minister Dilma Rousseff and Mines and Energy (MME) Deputy Minister Marcio Zimmermann welcomed development of a strategic partnership on energy, both noting that U.S. company investment significantly trails European and Asian. Rousseff supported adding energy to the CEO Forum, noting the private sector is an important voice in deepening the strategic relationship. On climate change, Rousseff called USG new engagement and leadership a fundamental and welcome change, and committed to GOB engagement in the MEF process, with Environment (MMA) Deputy Minister Izabella Teixeira also supporting a more active GOB role. However, External Affairs (MRE) Under Secretary Vera Machado deferred to MEF negotiator Luis Figueiredo Machado, who said GOB should not break ranks with the G77 and outlined his concerns with the MEF process and USG approach asserting that MEF should only be a listening platform rather than a negotiating forum. On the CEO Forum's Bilateral Tax Treaty (BTT) recommendation, Rousseff said legislative changes (e.g., for OECD-standard transfer pricing) would be possible if the negotiations advance this year, as nothing would happen once the election cycle begins. Stressing familiar concerns regarding tax revenue collection and perceived "asymmetries" between the United States and Brazil, Finance Deputy Minister Nelson Machado underlined difficulties in achieving a BTT that would be attractive to the government and congress. On Doha negotiations, MRE Under Secretary Pedro Mendonca and Assistant Secretary Carlos Marcio Cozendey affirmed that the GOB is open to a dialogue where USG outlines its specific priorities for market access and what USG can offer in exchange. Froman welcomed GOB input in the preparatory process for the G20 meeting in Pittsburgh. Regarding the G8, Vera Machado indicated continued GOB dissatisfaction with the quantity and quality of G5 participation. Froman's meetings June 19 in Sao Paulo will be reported septel. END SUMMARY.

ENERGY

2. (SBU) Rousseff affirmed continued GOB support for the CEO Forum. She welcomed the Forum incorporating energy into its agenda, noting

that the private sector is an important voice in seeking to deepen strategic USG-GOB energy cooperation. Referring to FDI more generally, Rousseff noted that U.S. companies are not investing in infrastructure development to the extent European and Asian companies are, and even in the energy sector, U.S. companies' participation is down. She emphasized that the USG and GOB need to develop a strategic relationship on energy overall, not simply focus on specific projects. Rousseff welcomed more USTDA, EXIM and OPIC energy engagement in Brazil, noting Brazil had a long-established relationship with China and to date it had been easier to work with Japan and Korea than with the USG. Rousseff emphasized the importance to Brazil that the strategic relationship with the USG becomes more significant. "A long-term relationship with you in this sector is very important for us," she said.

13. (SBU) In a separate meeting, MME Deputy Minister Zimmermann agreed that the USG and the GOB should seize the opportunity to develop a strategic energy relationship and could benefit from each others' experience, particularly since Brazil had developed with a clean energy matrix relying highly on renewables. He noted Petrobras' experiences with U.S. companies, including suppliers, create excellent possibilities for deeper partnerships given the pre-salt finds. Noting the deficit of U.S. companies' participation in the energy sector overall compared to Europe and Asia, Zimmermann welcomed the CEO Forum incorporating energy into its purview.

14. (SBU) Touching on on-going GOB work to develop a structure to manage the pre-salt resources, Zimmermann indicated that the GOB was focused on developing a model that would attract investors and avoid Dutch disease. Noting that environmental challenges mean Brazil can no longer construct large hydropower facilities, Zimmermann indicated Brazil would probably launch development of new nuclear plants next year. (NOTE. In May, Brazil restarted construction of a third reactor, Angra III. END NOTE.) Zimmermann said Brazil planned to liquefy natural gas at sea (in conjunction with oil

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extraction) to sell, and expressed interest in oil refinery development projects with U.S. companies as Brazil seeks to deliver more value-added product in the future.

CLIMATE CHANGE

15. (SBU) Rousseff acknowledged Brazil is well-positioned, given its clean energy matrix relying on renewables like hydropower and biofuels. She noted a great challenge in climate change management is the global logistics infrastructure does not yet exist for alternative fuel delivery as it does for fossil fuels. Rousseff noted wind and solar can only complement other power sources. While nuclear power development will proceed in Brazil, she noted resistance in Europe. Therefore, she viewed developed, particularly European, countries' goals for climate change with skepticism. Rousseff believed that China would try to prove it was equal to the challenge, and its still very centralized structure would allow it to do so. She thought achieving India's buy-in would be particularly difficult.

16. (SBU) Meanwhile, she underlined, the GOB would remain committed to its domestic goals to tackle deforestation and would continue to work to regularize land rights and suppress illegal deforestation. Rousseff stressed that establishing land rights would be Brazil's "great contribution" and most difficult challenge in preserving the Amazon. She noted that Brazil wanted to manage economic activity in the Amazon similarly to the way off-shore rigs are managed ("take people in to work, then take them out") so as to avoid creating cities/communities in the forest and minimizing the footprint of economic activity. Brazil's ambition, Rousseff summarized, is to prove a model that is viable in using the forest's services without impacting the forest.

17. (SBU) Rousseff was notably positive and intrigued regarding the provisions of the Waxman-Markey "American Clean Energy and Security Act of 2009" bill. She opined that this represented an "extremely important strategic fundamental change" that the United States now is becoming the leader on climate change. She thought this change represented the only way global climate change negotiations could go

forward. Rousseff emphatically confirmed that Brazil will give "all positive signals" in the MEF process. Noting "common but differentiated responsibilities" does not mean a country should avoid what is clearly its responsibilities, Rousseff stated, "we can be very supportive of these initiatives" in MEF. In response to Rousseff's interest in climate change developments in the United States, Froman offered to send an expert to Brazil to brief in further depth.

18. (SBU) In a later meeting with Vera Machado, who is Brazil's Leader's Representative for the MEF process, she claimed that she hadn't had sufficient time to focus on this part of her portfolio.

She did not attend the MEF meeting in Paris in May, and she said she would not attend the MEF meeting in Mexico at the end of June. In an indication that MRE is not prioritizing the MEF Forum or contemplating a re-examination of its positions, Vera Machado left the discussion on climate change to her deputy, Figueiredo Machado, who would be going to Mexico. Froman reviewed the key elements of the draft building blocks to be considered at the July MEF leaders meeting in Italy.

19. (SBU) Figueiredo Machado expressed concern about the MEF process. When pressed, he explained that Brazil did not want to see the MEF process serve as a negotiating platform, which could undercut the ongoing negotiating process under the UN Framework Convention on Climate Change (UNFCCC). He stressed that Brazil and the other MEF developing countries cannot negotiate positions that could affect the G-77 countries' negotiating position. The UNFCCC process is "more democratic" than the MEF, he explained, which includes only a handful of G-77 members. He didn't mind if the developed countries agreed to targets within the MEF process, but the MEF developing countries could not speak about what all developing countries would do. If Brazil agrees to details within the MEF, he explained, then "we will have betrayed the G-77. We will be lynched by them." Figueiredo Machado discounted Mexico's efforts to advance the negotiations saying that Mexico is not part of the G-77 and doesn't care about it. Similarly, he downplayed the support by UN Secretary General Ban Ki-moon for the MEF process because he was just "following the South Korean line."

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110. (SBU) Figueiredo Machado assured that he did value the MEF process. The MEF could produce a general, common vision on the UNFCCC negotiations, leaving the details to that body. In this way, he opined, the MEF process could end well. The participants could "create nice language to put in the mouths of our leaders." As for the UNFCCC process, he hoped that there was a possibility for reaching agreement between the G-77 and the developed countries. He added, "we are creative." Figueiredo Machado acknowledged that President Obama and President Lula wanted to see progress on climate change. Figueiredo Machado urged increasing contact between the Brazilian negotiators and the USG team. He said that many times the problem is a lack of understanding between the two sides, rather than a real conflict. He underlined that the US has known the Brazilian position for a year and that position had not changed. Froman countered, however, that the US position had changed and thus the need for real engagement and negotiation.

111. (SBU) With respect to the draft building blocks for consideration by MEF members, Figueiredo Machao said they had concerns about the details. The detail that appeared to bother him the most was the lack of a clear statement about the paramount position of the UNFCCC process. The current language seemed to suggest that the MEF process was a parallel negotiating process. Further, he disagreed with the concept of a "peak year" in the building blocks. He said could not agree to the principle of developing countries taking on targets.

112. (SBU) Froman described the progress being made with the Waxman-Markey climate change legislation in the House of Representatives. Figueiredo Machado responded cautiously to the possibility of offsets being included in U.S. legislation. He said that this needed more discussion and better understanding. "We are concerned by new mechanisms that may harm the climate, even though they may help some groups [such as Brazil with forest credits]," he

said. Brazil worries that offsets will lead to other countries eluding from their obligations to reduce emissions, he said. In the long term what will save trees is not foreign aid, but solving the climate change problem that threatens them, he opined. Moreover, he faulted offsets because the majority of the benefits would only go to a few developing countries, such as Brazil, China and India. Other developing countries would be left in the cold, such as Congo with its forests being cleared, he lamented.

¶13. (SBU) At a June 19 breakfast with the MMA Deputy Minister Izabella Teixeira and a key climate change advisor Branca Americano, Froman asked about how to make progress in the UNFCCC negotiations. Americano said that it seemed the negotiations within the UNFCCC were "locked up" and she thought the MEF process could help unlock them. She cautioned that the MEF process could not appear to be dictating to the G-77. Teixeira said that Rousseff can play a key role in the negotiations and after Copenhagen. She can broaden the internal negotiations beyond just the MRE and the Ministry of Science and Technology (MCT), which have run the process to date. She jokingly described MRE and MCT as "lovers" who were not interested in other Ministries' input. Americano concurred with Froman that for Brazil climate change negotiations may be more of an opportunity than a constraint on economic growth. Americano noted, with Teixeira's agreement, that MRE Minister Celso Amorim is open-minded and could possibly help produce movement within the Brazilian negotiating team. Teixeira was supportive of the new initiatives to combat deforestation as part of climate change. These ideas can help shape not only the national dialogue, but also Brazil's international position. She also encouraged the USG to reach out to other ministries not usually involved in environmental and climate change debates - such as the Finance Ministry, the Ministry of Planning, Budget and Management, and the Ministry Of Development, Industry and Trade (MDIC).

DOHA

¶14. (SBU) Emphasizing that the USG is not calling to re-negotiate modalities or re-open previous concessions, Froman indicated the United States needs to understand better what an agreement would concretely yield U.S. producers. In particular, the United States needs to understand better how countries intend to apply flexibilities laid out in the formulae in order to see what new market access will be achieved. In the meeting with MRE U/S

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Mendonca, WTO negotiator A/S Carlos Marcio Cozendey noted it is fairly clear in most cases what sensitivities each country intends to capture in its flexibilities. For example, he said, "everybody knows autos will be on our flexibilities list." However, he stated, "it is different not to know versus not to be happy." If the issue is the latter, Brazil would be very open to a dialogue where the United States says what it wants and what it is willing to pay for it. Cozendey stressed that it is positive that the USG wants to engage in a dialogue. He indicated Brazil wants certain things from the United States, citing agricultural access and the ethanol tariff as examples, and welcomed a chance to talk directly to the United States. At the same time, Cozendey emphasized, the USG has to be clear with Brazil regarding what it is not happy with and where it wants more.

¶15. (SBU) U/S Mendonca emphasized that re-opening modalities would be a Pandora's box; Cozendey reminded that while Brazil had accepted the modalities text, Argentina did not. This situation created intra-Mercosul tension; since Doha did not reach the end-game, bringing Argentina on-board was never fully resolved within Mercosul. Brazil has had some discussion with Argentina about granting Argentina internal Mercosul concessions in order to achieve buy-in; this internal negotiation will need to be completed, preferably without the modalities text itself being thrown open for discussion, and Argentine objections, again.

¶16. (SBU) In his meeting with Rousseff, she emphasized that Doha's conclusion was an enormous priority for President Lula and welcomed USG openness to this discussion. In response to a China question, Rousseff noted the relationship is challenging, because China is both Brazil's major industrial competitor and its biggest

agricultural consumer. Negotiations are not linear - Brazil can find itself winning and losing simultaneously and sometimes in the same degree. "The greatest complicating factor in this story is how the U.S.-China relationship is." On the other hand, Rousseff agreed there is no reason for U.S. and Brazilian industry to distrust one another. "We have to bring our relationship closer together in the complicated environment of China's emergence, which would be good for both our economies," underlining again that a strategic partnership on energy would be an important step.

G8 PLUS G5/FOOD SECURITY

¶17. (SBU) U/S Vera Machado reflected on the current global groupings. She opined that they are willing to participate in the G8 plus 5 with the intention that it will become a larger grouping in the future. The prior week, MRE Minister Celso Amorim on his way to the Brazil-Russia-India-China (BRIC) summit in Moscow had called the G8 process dead and added that it would be supplanted by a larger grouping. Machado complained that Brazil was being excluded from the G8 Foreign Ministers meeting and the Finance Ministers meeting in Italy. She said Brazil should at least be invited as an observer to these meetings. "We feel excluded," she said. Further, Brazil wants to participate further in the G8 process as a pathway to a larger group. While the G20 was mentioned during the conversation, Machado never explicitly or implicitly suggested that it should replace the G8 or the G8 plus G5. She was emphatic, however, that the G8 should expand to include Brazil. She said this could be done in stages, with Brazil initially as an observer, as part of a long term path toward full membership.

FOOD SECURITY

¶18. (SBU) MRE's Coordinator General for International Action to Combat Hunger, Milton Rondo noted progress on international food security efforts. He described a two-track approach - emergency or immediate assistance, where he said the USG has been a leader for years, and long term help with seeds through international bodies (like the Food and Agriculture Organization (FAO) and the World Food Programme (WFP)). He wanted to see strengthening of a "Right to Food." Rondo agreed with the USG that the World Bank should play a greater role, and he advocated for crop insurance. Paragraph 2 of Article 25 of the UN Declaration of Human Rights implicitly supported crop insurance, he said.

¶19. (SBU) Rondo listed areas where he saw a convergence of views with the USG:

- access to seeds (he commented that Brazil is concerned about farmers becoming dependent on just a few sources of seeds);

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- finance and credit;
- infrastructure, particularly for storage (Brazil is working with Central America to improve their storage capacity);
- women, since in many places women do most of the farm work, but rarely have title (e.g., he said in Kenya that 70% of the farm workers were women, who owned just 10% of the land);
- research, both Brazil and the United States are leaders in this field;
- South-South cooperation and maybe trilateral cooperation with the United States participating; and
- Importance of concluding the Doha Round.

¶20. (SBU) U/S Vera Machado added that she saw a need for three steps on food security. First, there should be a high level meeting on the subject. Second, more agriculture research is called for and the results need to be widely disseminated. Third, there should be better coordination of financing for food security. Separately, Nelson Machado indicated that the Finance Ministry has not been engaged on the development of the G8 food security initiative.

G20

¶21. (SBU) In the meetings with U/S Mendonca (G20 Sherpa, MRE) and U/S for International Affairs Galvao (G20 sous-Sherpa, Finance), as well as in the Finance Deputy Minister Nelson Machado meeting (which Galvao also attended), Froman welcomed on-going Brazilian input into the G20 preparatory process for the Pittsburgh meeting. MRE and

Finance stressed the continued importance of good inter-governmental communication in the preparatory process and the priority the GOB places on International Financial Institutions (IFI) governance reform. U/S Mendonca inquired how labor would be incorporated into the G20 discussion. Froman noted that social safety net issues and issues regarding how best to prepare the labor force to succeed were under discussion. In the Nelson Machado meeting, Galvao noted that Finance Minister Mantega would like to relaunch the dialogue with Treasury on bilateral and macroeconomic issues, in addition to on-going G20 discussions. Galvao indicated that Mantega intended to discuss this proposal with Treasury Secretary Geithner.

BILATERAL TAX TREATY

¶22. (SBU) Noting significant divergences between the United States and Brazil on BTT issues, Rousseff concurred negotiations should resume via DVC before the CEO Forum to examine the possibility of concluding an agreement. She mentioned that services would need to be excluded from the BTT and that transfer pricing was a particular problem. She noted that there was no subject that could not eventually be dealt with, including those that would require legislative changes, even if some elements would require a staged approach. Rousseff noted that if the negotiation yielded a result this year, legislative changes would be possible to pursue; next year would be impossible, given the election cycle. In a separate meeting, Finance Deputy Minister Nelson Machado said the possibility of legislative changes was the last question to ask, not the first. Stressing familiar concerns regarding tax revenue collection and perceived "asymmetries" between the United States and Brazil, he underlined difficulties in achieving a BTT that would be attractive to the Brazilian government and congress. He emphasized that information exchange was the most important element of a BTT for Brazil; consequently the GOB is expending much effort to see the U.S.-Brazil Tax Information Exchange Agreement (TIEA) passes congress. Rousseff and Nelson Machado agreed that negotiators would meet again by DVC before the CEO Forum, to assess what progress is possible and the viability of continued negotiations in the near term.

COMMENT

¶23. (SBU) GOB interlocutors affirmed the continued priority placed on the CEO Forum and welcomed moving toward a strategic partnership on energy issues. Meetings highlighted the discrepancy in MEF ambition and engagement between the Casa Civil and Environment Ministry on one hand, and the Ministry of External Relations (MRE) with the lead in the negotiations on the other. While the MRE and Finance generally are satisfied with G20 discussions, MRE expressed continued frustration with GOB participation in G8 mechanisms. Following her meeting with Froman, Rousseff commented to her International Affairs Advisor, Carlos Alfredo Teixeira, that she was

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pleased with the positive tone and common interests discussed. Carlos Teixeira noted the early bilateral visit by the National Security Council was an important demonstration of the new Administration's desire to engage with Brazil. END COMMENT.

¶24. (U) MEETING PARTICIPANTS:

Casa Civil

Dilma Rousseff, Head of Casa Civil
Carlos Alfredo Teixeira, International Affairs Advisor

MRE - Economic Affairs

Pedro Luiz Carneiro de Mendonca, U/S for Economic Affairs
Luis Balduino, A/S Finance and Services Affairs
Carlos Marcio Cozendey, A/S Economic Department
Marco Galvao, Finance Ministry, U/S International Affairs
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MRE - Political, Environment, G8 Affairs

Vera Barrouin Machado, U/S for Political Affairs
Luis Figueiredo Machado, A/S Environment Department
Milton Rondo, General Coordinator, International Action to Combat
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Joao Tabajara, General Coordinator, US/Canada desk
Saulo Arantes Ceolin, U/S staff advisor

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Alexandre Peixoto, Chief of Staff
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Marcos Galvao, U/S International Affairs
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Renato Stancato, MRE, Finance and Services staff

Environment

Izabella Teixeira, Deputy Secretary
Branca Americano, Climate Change Advisor

SOBEL